

DERBY RECREATION COMMISSION

COMPONENT UNIT

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

George, Bowerman & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Derby Recreation Commission
Derby, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Derby Recreation Commission (Commission), Derby, Kansas, a component unit of Unified School District No. 260, Derby, Kansas, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly,

we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Derby Recreation Commission, Derby, Kansas, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Employee Benefits Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Commission's Proportionate Share of the Net Pension Liability and the Schedule of Commission's Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "George Bowerman & Noel, P.A." The signature is written in dark ink and is positioned above the typed name and date.

Wichita, Kansas
November 30, 2017

DERBY RECREATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

As management of the Derby Recreation Commission, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Commission's basic financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Derby Recreation Commission exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,458,308 (net position). Of this amount, \$1,799,701 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors in accordance with the Commission's fiscal policies.
- The Commission's financial position deteriorated during the current fiscal year. The Commission's total net position decreased by \$353,351 during the current fiscal year.
- As of the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$3,146,677, a decrease of \$380,712 or 10.8%. Of the ending combined fund balance amount, \$59,391 is committed, \$2,998,085 is assigned and \$89,201 is unassigned.
- At the end of the current fiscal year, \$2,998,085 is assigned to assist in funding the subsequent year's budget. The total ending uncommitted fund balance for the General Fund was \$3,087,286 or 60% of the total General Fund expenditures for the most recent fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Activities presents information showing how the Commission's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for certain items that will only result in cash flows in the future fiscal periods (e.g., earned but not used compensated absences).

Both of the government-wide financial statements present the functions of the Commission that are principally supported by taxes and charges for service revenues (governmental activities). The governmental activities of the Commission include general operations, the recreation center, maintenance, adult, youth, Oaklawn Recreation Center and special programs, the Rock River Rapids outdoor aquatic park, concession operations, bus and other activities.

The government-wide financial statements can be found on pages 12 – 13 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating an entity's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the Commission's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission maintains two governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General and Employee Benefit funds, both of which are considered major funds.

The basic governmental fund financial statements can be found on pages 14 – 19 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The assets of the Commission are classified as current assets and capital assets. Cash, investments and receivables are current assets. These assets are available to provide resources for the near-term operations of the Commission. The majority of the current assets are comprised of cash and investments. The significant cash and investment balances are the result of the State legislature's accelerated tax collection of the second half property tax payments previously due June 20 (July 20 distribution) to May 10 (June 5 distribution). As a result of this change, the Commission has received approximately 98% of its 2017 budgeted tax distributions prior to June 30, 2017 from Derby Unified School District No. 260.

Capital assets (e.g., buildings and improvements, machinery, equipment and vehicles) comprise 67.1% of total net position and are used to provide services to citizens; consequently these assets are not available for future spending. Although the Commission's net position reflects the investment in capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits and current debt obligations. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets or new resources that become available during fiscal year 2018. Long-term liabilities such as long-term debt obligations and compensated absences payable will be liquidated from resources that will become available after fiscal year 2017.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,458,308 as of June 30, 2017. The Commission's net position reflects \$3,658,607 as its net investment in capital assets. This amount represents the total cost of capital assets net of accumulated depreciation and any debt used to acquire those assets that are still outstanding. The Commission's unrestricted net assets of \$1,799,701 may be used to meet the Commission's ongoing obligations to citizens and creditors.

DERBY RECREATION COMMISSION COMPARATIVE SUMMARY OF NET POSITION June 30, 2017 and 2016

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 3,462,529	\$ 3,843,772
Capital assets	<u>7,403,607</u>	<u>7,610,577</u>

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Total assets	<u>\$10,866,136</u>	<u>\$11,454,349</u>
Deferred outflows of resources related to pensions	<u>369,631</u>	<u>155,860</u>
Long-term liabilities	5,410,646	5,367,014
Other liabilities	<u>323,037</u>	<u>323,893</u>
Total liabilities	<u>5,733,683</u>	<u>5,690,907</u>
Deferred inflows of resources related to pensions	<u>43,776</u>	<u>104,414</u>
Net position:		
Net investment in capital assets	3,658,607	3,670,577
Unrestricted	<u>1,799,701</u>	<u>2,141,082</u>
Total net position	<u>\$ 5,458,308</u>	<u>\$ 5,811,659</u>

Analysis of the Commission's operations – The following table provides a summary of the Commission's operations for the years ended June 30, 2017 and 2016. The Commission's net position decreased by \$353,351, which represents a 6.1% reduction in net position.

**DERBY RECREATION COMMISSION
COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2017 and 2016**

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,246,299	\$ 2,272,397
Operating grants and contributions	27,057	26,506
Capital grants and contributions	–	–
General revenues:		
Payments from Unified School District No. 260 for property taxes	3,271,832	2,956,393
Investment earnings	<u>11,286</u>	<u>6,882</u>
Total revenues	<u>5,556,474</u>	<u>5,262,178</u>

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Expenses:		
Recreation Center	\$ 1,849,993	\$ 1,786,717
General operating	1,249,485	1,029,516
Maintenance	157,567	144,144
Adult programs	413,384	404,711
Youth programs	393,607	370,949
Oaklawn programs	195,709	145,393
Special programs	31,911	31,816
Rock River Rapids	624,173	647,558
Oaklawn Recreation Center	838,895	459,098
Sixth Grade Center	3,542	—
Bus operations and other	61,764	36,342
Interest on long-term debt	<u>89,795</u>	<u>93,603</u>
Total expenses	<u>5,909,825</u>	<u>5,149,847</u>
Increase (decrease) in net position	(353,351)	112,331
Net position – July 1	<u>5,811,659</u>	<u>5,699,328</u>
Net position – June 30	<u>\$ 5,458,308</u>	<u>\$ 5,811,659</u>

Key elements of the increase in net position for governmental activities are as follows:

- Total revenues increased by \$294,296, or approximately 5.6%, and total expenses increased by \$759,978 or approximately 14.4%, for 2017.
- Payments received from Derby Unified School District No. 260 increased by \$315,439 (6.0%) during the fiscal year. The General Fund tax receipts increased by \$95,378 and the Employee Benefits Fund increased \$220,061. These changes were anticipated in the preparation of the Commission's 2017 budget.
- Charges for services decreased \$26,098, or 1.1% from 2016. Recreation Center charges stabilized during 2017 with an increase of \$307 and general operating fees increased \$2,569. Adult program fees increased by \$1,500 and youth program fees increased \$2,324 however, decreases were incurred for bus and other operations and other special programs by \$5,489 and \$4,071, respectively. The Rock River Rapids Aquatic Park charges decreased by \$23,385, or about 3.6%.
- Operating grants and contributions increased by \$551 for 2017, which was principally a decrease in youth program grants and contributions of \$7,366 but increases were incurred for adult programs of \$2,607 and Oaklawn programs of \$5,215.

- Total governmental activities expenses increased by \$759,978, or about 14.8% for 2017. During 2017, the Commission made advance payments on the operating lease for the Oaklawn Recreation Center in the amount of \$364,465 to the Derby Unified School District (USD) No. 260 to provide for early retirement of the Certificates of Participation issued by the USD for financing of the facility improvements made to the Oaklawn Recreation Center.

Approximately 59% of total functional expenses are payroll and related benefit costs. Salaries were increased about 3% during 2017 and total salary costs increased about \$278,836 for 2017. Total Employee benefit costs increased by \$230,413, or approximately 35.2%, with the most significant increases related to FICA/Medicare taxes of \$6,164, health insurance costs of \$15,590 and retirement benefits of \$194,860. The retirement benefit costs include the settlement to KPERS for prior year required contributions of \$124,409.

Functional area costs reflect an increase in total expenses of \$759,978 with salary and benefit costs comprising most of the increase. The Oaklawn Recreation Center total expenses increased by \$379,797 for 2017 with the advance payments for the Oaklawn Activity Center accounting for \$364,465 of that increase. General operating functional expenses increased by \$219,969 with wages and benefit costs comprising approximately \$79,535 and contractual services \$70,548, which was related to the Master Plan development and also costs incurred related to the replacement of the superintendent of recreation position. Recreation Center expenses increased \$63,276 for 2017 with the largest increase again in salaries and benefits of approximately of \$30,716. Oaklawn program costs increased by \$50,316 with salaries and benefits accounting for most all of the increase. Youth program costs increased \$22,658 with program operating costs accounting for approximately 70% of the increase and salaries benefits for the remainder.

FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

Governmental funds – The focus of the Commission's funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of the Commission's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$3,146,677 with approximately 95.3% of this amount classified as assigned equity and available for use within the Commission's designation and policies.

In the General Fund, total revenues were \$4,740,717 for 2017 compared to \$4,665,151 for 2016, or an increase of \$75,566. The tax appropriations from Derby Unified School District No. 260 decreased by \$95,378 and other charges and fees decreased by \$831. Rock River Rapids charges decreased \$23,385 for 2017. Interest earnings increased \$4,404 due to increased balances available for investment however; low earnings rates continued to hamper the returns on the investment of idle funds.

The Employee Benefit Fund total revenues increased by \$220,061, which was related to tax appropriations from Derby Unified School District No. 260. Expenditures increased by \$150,048 however, health insurance costs of \$69,828 were absorbed by the General Fund as the total cash and fund balance for the Employee Benefit Fund was depleted during 2017 due to increased health insurance and retirement benefit costs.

General Fund Budgetary Highlights – The General Fund total actual revenues (\$4,740,717) were 99.2% of the total amount anticipated in the 2017 budget. Expenditures on a budgetary basis totaled \$5,027,879, which represented only 61.4% of the budgeted expenditures for 2017. The result was a decrease in budgetary basis fund balance for the General Fund in the amount of \$287,162, or about an 8.5% decrease from the beginning of the year fund balance. The actual carry over balance to the 2018 budget was \$3,103,311 and the anticipated carry over balance in funding the 2018 budget was \$2,998,085, an excess of \$105,226.

The State Legislature's enactment in 2004 of accelerated tax collection requirements requiring property owner tax payments and the related distribution thereof, before June 30th artificially inflates the Commission's reserves at year-end. These distributions annually leave the Commission in a negative cash flow mode through the first seven months of each fiscal year, as the first tax distribution for the 2018 budget year is January 20, 2018. This requires sufficient cash reserves to meet obligations during that period.

The slow economic recovery at the national, state and local levels will require continuous monitoring and may effect future assessed valuations and membership renewals. However, the completion of the Derby Recreation Center remodel project has had a positive reaction from patrons resulting in increased memberships. The Commission's 10-year pro-forma forecasts will need to be monitored closely to identify if our past performance supports future projections, or if adjustments need to be made to cover future obligations. A healthy fund balance will provide protection against any detrimental financial effects of these situations.

CAPITAL ASSETS

The Commission's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$7,403,607 (net of accumulated depreciation). The investment in capital assets includes buildings and improvements, machinery and equipment and vehicles. Capital asset acquisitions totaled \$212,192 during 2017. Major capital asset events during the current fiscal year included the following:

- Replacement computers and electronic equipment at a total cost of \$5,012.
- Replacement of fitness equipment at a total cost of \$74,994.
- An enclosed trailer for the Maintenance Department at a cost of \$3,885.
- Purchase of a computer and HD projector for the Oaklawn Recreation Center at a cost of \$1,821.
- Replacement of a chiller at the Recreation Center at a cost of \$83,990.

- Purchase of a 2003 Thomas 78 passenger bus at a cost of \$37,875.

**Capital Assets at Year-End
Net of Accumulated Depreciation
June 30, 2017 and 2016**

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 6,490,313	\$ 6,676,766
Machinery and equipment	816,622	836,180
Vehicles	<u>96,672</u>	<u>97,631</u>
Total	<u>\$ 7,403,607</u>	<u>\$ 7,610,577</u>

Additional information on the Commission's capital assets can be found in Note 3 on pages 27 and 28 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the Commission had total long-term debt obligations under a capital lease arrangement of \$3,745,000 related to the Derby Recreation Center remodel project. During the current fiscal year, \$195,000 principal on the capital lease obligation with the City of Derby was retired. The Commission's total commitments for compensated absences totaled \$223,691 at the end of the current fiscal year, an increase of \$11,308.

Additional information on the Commission's long-term debt can be found in Note 4 on pages 28 – 30 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the 2017-2018 budget, General Fund revenues are budgeted to increase \$95,980 or about 2.0% from the 2016-2017 budget year with appropriations from Derby Unified School District No. 260 representing about 52.1% of the total General Fund budgeted revenues. Certified assessed valuations estimated for the 2017-2018 budget year, on which the USD No. 260 appropriations are derived, increased about 2.7% from the preceding year. The Commission's total estimated assessed valuations for the 2017-2018 budget year are \$415,768,268. Total General Fund budgeted expenditures for the 2017-2018 budget year are \$7,872,615, a decrease of \$312,935 from the 2016-2017 budget year. The anticipated carryover balance for the 2017-2018 budget year decreased \$408,915 from the 2016-2017 budget year.

Due to fairly stable certified assessed valuations, the mill levy for the General Fund of the Commission reflected an anticipated slight increase of .004 mills for the 2017-2018 budget as compared to the 2016-2017 budget. The Employee Benefit Fund budgeted expenditures decreased for the 2017-2018 budget in the amount of \$27,092. The 2017-2018 mill levy rate for the Employee Benefit Fund is 1.910 compared to the 2016-2017 budget of 1.912, or a decrease of .002 mills.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Commission's finances. If you have questions about this report or need any additional information, contact the Derby Recreation Commission, Attention: Superintendent of Recreation, at 801 East Market, P.O. Box 324, Derby, Kansas 67037, call (316) 788-3781, or e-mail at chris@derbyrec.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

DERBY RECREATION COMMISSION

STATEMENT OF NET POSITION

June 30, 2017

Governmental
Activities

ASSETS

Cash and investments	\$ 3,398,529
Accounts receivable	58,133
Accrued interest receivable	5,867
Capital assets:	
Buildings and improvements	9,161,454
Machinery and equipment	2,046,068
Vehicles	303,149
Accumulated depreciation	<u>(4,107,064)</u>
Total Assets	<u>10,866,136</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	<u>369,631</u>
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LIABILITIES

Accounts payable	165,788
Accrued salaries and wages payable	150,064
Accrued interest payable	7,185
Noncurrent liabilities:	
Due within one year	249,761
Due in more than one year	<u>5,160,885</u>
Total Liabilities	<u>5,733,683</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	<u>43,776</u>
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NET POSITION

Investment in capital assets, net	3,658,607
Unrestricted	<u>1,799,701</u>
Total Net Position	<u>\$ 5,458,308</u>

The accompanying notes are an integral
part of the financial statements.

DERBY RECREATION COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental Activities:					
Recreation Center	\$ 1,849,993	\$ 1,037,711	\$ —	\$ —	\$ (812,282)
General Operating	1,249,485	43,466	—	—	(1,206,019)
Maintenance	157,567	4,775	—	—	(152,792)
Adult Programs	413,384	284,669	8,807	—	(119,908)
Youth Programs	393,607	244,698	6,590	—	(142,319)
Oaklawn Programs	195,709	215	7,590	—	(187,904)
Special Programs	31,911	388	—	—	(31,523)
Rock River Rapids	624,173	624,173	—	—	—
Oaklawn Recreation Center	838,895	6,204	—	—	(832,691)
Sixth Grade Center	3,542	—	—	—	(3,542)
Bus operations and other	61,764	—	4,070	—	(57,694)
Interest on long-term debt	<u>89,795</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(89,795)</u>
Total Governmental Activities	<u>\$ 5,909,825</u>	<u>\$ 2,246,299</u>	<u>\$ 27,057</u>	<u>\$ —</u>	<u>(3,636,469)</u>
General Revenues:					
Payments received from Derby USD No. 260 for:					
General operations					2,456,075
Employee benefits					815,757
Investment earnings					<u>11,286</u>
Total General Revenues					<u>3,283,118</u>
Decrease in Net Position					(353,351)
Net Position, Beginning of Year					<u>5,811,659</u>
Net Position, End of Year					<u>\$ 5,458,308</u>

The accompanying notes are an integral
part of the financial statements.

FUND FINANCIAL STATEMENTS

DERBY RECREATION COMMISSION

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2017

	<u>General</u>	<u>Employee Benefit</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 3,398,529	\$ —	\$ 3,398,529
Accounts receivable	58,133	—	58,133
Accrued interest receivable	<u>5,867</u>	<u>—</u>	<u>5,867</u>
Total assets	<u>\$ 3,462,529</u>	<u>\$ —</u>	<u>\$ 3,462,529</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 165,788	\$ —	\$ 165,788
Accrued salaries and wages payable	<u>150,064</u>	<u>—</u>	<u>150,064</u>
Total liabilities	<u>315,852</u>	<u>—</u>	<u>315,852</u>
Fund balances:			
Committed to:			
General operating	15,265	—	15,265
Recreation Center	28,101	—	28,101
Rock River Rapids	16,025	—	16,025
Assigned for subsequent year's budget deficit	2,998,085	—	2,998,085
Unassigned	<u>89,201</u>	<u>—</u>	<u>89,201</u>
Total fund balances	<u>3,146,677</u>	<u>—</u>	<u>3,146,677</u>
Total liabilities and fund balances	<u>\$ 3,462,529</u>	<u>\$ —</u>	<u>\$ 3,462,529</u>

The accompanying notes are an integral
part of the financial statements.

DERBY RECREATION COMMISSION

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

June 30, 2017

Total Governmental Fund Balances \$ 3,146,677

Amounts reported for governmental activities in the
statement of net position are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported
in the funds:

Cost	\$11,510,671	
Accumulated depreciation	<u>(4,107,064)</u>	
		7,403,607

Pension contributions are reported as an expense in the funds and as a deferred outflow of resources in the governmental activities in the statement of net position	369,631
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Pension fundings are reported as a revenue in the funds and as a deferred inflow of resources in the governmental activities in the statement of net position	(43,776)
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Long-term liabilities are not due and payable in the
current period and therefore are not reported
in the funds:

Accrued interest payable	7,185	
Compensated absences payable	223,691	
Net pension liability	1,441,955	
Capital lease obligations payable	<u>3,745,000</u>	
		<u>(5,417,831)</u>

Net Position of Governmental Activities \$ 5,458,308

The accompanying notes are an integral
part of the financial statements.

DERBY RECREATION COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUNDS

Year ended June 30, 2017

	<u>General</u>	<u>Employee Benefit</u>	<u>Total Governmental Funds</u>
Revenues:			
Appropriation from USD No. 260	\$ 2,456,075	\$ 815,757	\$ 3,271,832
Recreation Center fees, gifts and grants	1,037,711	—	1,037,711
Adult programs	293,476	—	293,476
Youth programs	251,288	—	251,288
Oaklawn programs	7,805	—	7,805
Special programs	388	—	388
Oaklawn Recreation Center	6,204	—	6,204
Rock River Rapids	624,173	—	624,173
Interest	11,286	—	11,286
Other	<u>52,311</u>	<u>—</u>	<u>52,311</u>
Total revenues	<u>4,740,717</u>	<u>815,757</u>	<u>5,556,474</u>
Expenditures:			
Current:			
Recreation Center	1,455,994	254,435	1,710,429
General operating	991,310	251,906	1,243,216
Maintenance	124,688	26,267	150,955
Adult programs	325,707	93,404	419,111
Youth programs	323,730	73,744	397,474
Oaklawn programs	109,088	58,653	167,741
Special programs	21,823	10,279	32,102
Oaklawn Recreation Center	244,434	47,069	291,503
Sixth Grade Center	3,542	—	3,542
Rock River Rapids	624,173	—	624,173
Bus and other	61,764	—	61,764
Debt service	<u>835,176</u>	<u>—</u>	<u>835,176</u>
Total expenditures	<u>5,121,429</u>	<u>815,757</u>	<u>5,937,186</u>
Expenditures over revenues	(380,712)	—	(380,712)
Fund balances, beginning of year	<u>3,527,389</u>	<u>—</u>	<u>3,527,389</u>
Fund balances, end of year	<u>\$ 3,146,677</u>	<u>\$ —</u>	<u>\$ 3,146,677</u>

The accompanying notes are an integral
part of the financial statements.

DERBY RECREATION COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Net Change in Fund Balances – Total Governmental Funds \$ (380,712)

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these
amounts are:

Capital outlay	\$ 212,192
Depreciation	<u>(411,770)</u>

Excess of depreciation over capital outlay (199,578)

Governmental funds only report the disposal of fixed assets
to the extent proceeds are received from the sale. In the
statement of activities, a gain or loss is reported for each
disposal (7,392)

In the statement of activities, interest is accrued on outstanding
debt, whereas in governmental funds, an interest expenditure
is reported when due 325

Pension contributions are reported as expenditures in the
governmental funds when made; however, they are
reported as deferred outflows of resources in the statement
of net position 50,314

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets 195,000

Some expenses reported in the statement of activities do
not require the use of current financial resources and
therefore are not reported as expenditures in the funds:
Compensated absences payable (11,308)

Change in Net Position of Governmental Activities \$ (353,351)

The accompanying notes are an integral
part of the financial statements.

DERBY RECREATION COMMISSION

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS**

Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
Appropriation from USD No. 260	\$ 2,500,000	\$ 2,500,000	\$ 2,456,075	\$ (43,925)
Recreation Center fees	1,013,800	1,013,800	1,037,711	23,911
Adult programs	282,100	282,100	293,476	11,376
Youth programs	284,600	284,600	251,288	(33,312)
Oaklawn programs	200	200	7,805	7,605
Special programs	1,050	1,050	388	(662)
Oaklawn Activity Center	6,200	6,200	6,204	4
Rock River Rapids	635,600	635,600	624,173	(11,427)
Interest	6,000	6,000	11,286	5,286
Other	<u>49,000</u>	<u>49,000</u>	<u>52,311</u>	<u>3,311</u>
Total revenues	<u>4,778,550</u>	<u>4,778,550</u>	<u>4,740,717</u>	<u>(37,833)</u>
Expenditures and encumbrances:				
Recreation Center	1,176,900	1,176,900	1,049,347	127,553
General operating	922,700	922,700	898,873	23,827
Maintenance	152,700	152,700	120,803	31,897
Adult programs	353,000	353,000	325,707	27,293
Youth programs	347,850	347,850	323,730	24,120
Oaklawn programs	132,200	132,200	109,088	23,112
Special programs	22,700	22,700	21,823	877
Oaklawn Activity Center	591,100	591,100	232,965	358,135
Sixth Grade Center	58,070	58,070	3,542	54,528
Rock River Rapids	635,600	635,600	624,173	11,427
Bus and other	281,500	281,500	61,764	219,736
Capital outlay	3,511,230	3,511,230	351,060	3,160,170
Employee benefits	—	—	69,828	(69,828)
Debt Service	<u>—</u>	<u>—</u>	<u>835,176</u>	<u>(835,176)</u>
Total expenditures and encumbrances	<u>8,185,550</u>	<u>8,185,550</u>	<u>5,027,879</u>	<u>3,157,671</u>
Revenues over (under)				
expenditures and encumbrances	(3,407,000)	(3,407,000)	(287,162)	3,119,838
Fund balance, beginning of year	<u>3,407,000</u>	<u>3,407,000</u>	<u>3,390,473</u>	<u>(16,527)</u>
Fund balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,103,311</u>	<u>\$ 3,103,311</u>

The accompanying notes are an integral
part of the financial statements.

DERBY RECREATION COMMISSION

EMPLOYEE BENEFIT FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS**

Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
Appropriation from USD No. 260	<u>\$ 821,265</u>	<u>\$ 821,265</u>	<u>\$ 815,757</u>	<u>\$ (5,508)</u>
Expenditures:				
FICA and Medicare taxes	170,000	170,000	174,456	(4,456)
Workmen's compensation insurance	18,000	18,000	14,727	3,273
Unemployment insurance	6,700	6,700	6,570	130
Health insurance	330,000	330,000	250,676	79,324
Retirement benefits	285,300	285,300	356,588	(71,288)
Liability insurance	<u>11,265</u>	<u>11,265</u>	<u>12,740</u>	<u>(1,475)</u>
Total expenditures	<u>821,265</u>	<u>821,265</u>	<u>815,757</u>	<u>5,508</u>
Revenues over (under) expenditures	—	—	—	—
Fund balance, beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The accompanying notes are an integral
part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DERBY RECREATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Derby Recreation Commission (Commission) was formed in 1980 pursuant to K.S.A. 12-1901 to establish, operate and maintain a recreational system in Derby, Kansas, and began active operations in January 1981. The Commission is comprised of five board members, two appointed by the Board Members of Unified School District (USD) No. 260, Derby, Kansas, two appointed by the City Council of the City of Derby, Kansas, and one is appointed by those four appointed Commission members. The Commission must certify its annual budget to USD No. 260 for levying of property taxes. The Commission may not acquire real property or issue debt without the approval of USD No. 260. Any lease entered into by the Commission may be subject to approval of USD No. 260. The USD No. 260 is financially accountable for the Commission and, accordingly, the Commission is a component unit of that entity.

Basis of presentation

The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The *Governmental Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

The Commission's basic financial statements include both government-wide, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements

The statement of net position and the statement of activities display information about the Commission as a whole. The statement of net position presents the financial condition of the governmental activities of the Commission at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include (1) charges paid by the recipient for goods or services or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Commission.

Fund financial statements

During the year, the Commission segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Commission at a more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is reported in a separate column.

Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers property tax revenues to be available in the period for which levied and other revenues if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest and charges for services associated with the current fiscal period are considered susceptible to accrual and so have been recognized as revenues of the current period.

The Commission reports the following major governmental funds:

General Fund – to account for all unrestricted resources except those required to be accounted for in another fund. All resources of the Commission are accounted for in the General Fund, exclusive of employee benefits.

Employee Benefit Fund – established pursuant to Kansas law to account for the taxes levied and expenditures for the employer's portion of FICA and Medicare taxes, workmen's compensation insurance, unemployment taxes, health insurance benefits, retirement benefits and tort liability insurance premiums.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and investments

The Commission pools all funds for the purpose of increasing income through investment activities. Cash deposits are recorded at cost, which approximates fair value. Interest earnings on investments and deposits are credited to the General Fund. Additional cash and investment disclosures are presented at Note 2.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements, if any.

Inventories

Inventories are considered to be immaterial and are not recorded.

Capital assets

Capital assets, which includes property and facilities under capital lease obligations, and equipment are capitalized at total acquisition cost, provided such amounts exceed \$500 and have a useful life of more than one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and improvements	20-50
Machinery and equipment	3-10
Vehicles	5

Compensated absences

Supervisory and full-time personnel earn paid vacation leave of 10 days after one year of service, 15 days after five years of service and 20 days after ten years of service. All vacation leave that is not used by the end of the calendar year following the year in which it was accrued will be forfeited except that the Superintendent of Recreation shall have discretion in appropriate circumstances to grant a carry forward of unused vacation time. Supervisory and full-time employees earn one day's sick leave for each calendar month worked with a maximum accumulation of 90 days. Accumulated sick leave in excess of 90 days is paid each year to employees at 75% of their daily rate. Employee's terminating in

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

good standing will be paid for up to 90 days of accumulated sick leave at one-third of their normal pay rate at termination. The employment contract with the Superintendent of Recreation provides for full payment of up to 90 days accumulated sick leave at date of termination.

The entire compensated absences liability is reported on the government-wide financial statements. The liability is based on current salary costs and the vested portion of accumulated benefits.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent that they are due for payment during the current year.

Accrued liabilities and long-term obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and capital lease obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Risk management

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for all risks of loss. There were no significant reductions in coverage from prior years and claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Deferred outflows/deferred inflows of resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and is not recognized as an outflow of resources (expense) until the future period. The Commission reports amounts related to pensions on the government-wide statement of net position as a deferred outflow of resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition to liabilities, the statement of net position and balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The Commission reports amounts related to pensions on the government-wide statement of net position as deferred inflows of resources.

Net position flow assumption

The government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

In the government-wide financial statements, equity is reflected as net position and is classified into three components:

- Invested in capital assets, net – consisting of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisitions, construction or improvements of those assets.
- Restricted net position – consisting of net position items with constraints place on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – all other net position items that do not meet the definition of “restricted” or “invested in capital assets, net”.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Recreation Commission Board Members is the highest level of decision-making authority for the Commission that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

In the governmental funds financial statements, equity is classified into potentially five components:

- Nonspendable – the nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form; or (2) legally or contractually required to be maintained in tact.
- Restricted – that portion of fund balance that has constraints that are (1) external imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.
- Committed – that portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- Assigned – fund balance that is constrained by the government's intent to be used for specified purposes, but are neither restricted or committed.
- Unassigned – all amounts not included in the other fund balance classifications. The General Fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.

When expenditures are incurred for purposes that include committed, assigned and unassigned amounts, the committed amounts are reduced first, followed by assigned amounts and then unassigned amounts.

Details of fund balance amounts are displayed on the governmental fund balance sheet.

Budgetary principles

The Commission is required by state statute to adopt annual budgets for the General and Employee Benefit funds on or before August 1 for the ensuing year. The Commission is required to certify its adopted budget to Unified School District No. 260 which shall levy a tax sufficient to raise the amount required by such budget on all the taxable tangible property within the taxing district. The Commission may amend the budget by transferring budgeted amounts from one object or purpose to another. Expenditures may not legally exceed the total amount of adopted budget of individual funds. Budgeted revenue and expenditure amounts represent the original adopted budget for such amounts.

The statutes provide for the following timetable in the adoption of the legal annual operating budget:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Preparation of the budget for the succeeding calendar year on or before July 1st.
2. Publication in the local newspaper of the proposed budget and notice of public hearing on the budget on or before July 10th.
3. Public hearing on or before July 20th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 1st and certification of the adopted budget to USD No. 260.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. This process requires a notice of public hearing to amend the budget to be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments for the year ended June 30, 2017.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are generally recognized when cash is received or are considered susceptible to accrual. For budgetary purposes, encumbrances, representing purchase orders, contracts and other commitments, are reported as expenditures in the current year budget. All unencumbered appropriations lapse at year-end.

The following reconciliation is presented to provide a correlation between reporting in conformity with generally accepted accounting principles (GAAP) and the budgetary basis of reporting:

	<u>Major Governmental Funds</u>	
	<u>General Fund</u>	<u>Employee Benefit Fund</u>
GAAP Fund Balance at June 30, 2017	\$ 3,146,677	\$ —
Adjustments:		
Reserved for encumbrances	<u>(43,366)</u>	<u>—</u>
Budgetary Basis Fund Balance at June 30, 2017	<u>\$ 3,103,311</u>	<u>\$ —</u>

2. DEPOSITS AND INVESTMENTS

Deposits

K.S.A. 9-1401 establishes the depositories that may be used by the Commission. The statute

2. DEPOSITS AND INVESTMENTS (continued)

requires banks eligible to hold the Commission's funds have a main or branch bank in the county in which the Commission is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of Federal Depository Insurance Corporation coverage. The Commission has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Commission's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Commission has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Commission's deposits may not be returned to it. State statutes require the Commission's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipts issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

At year-end, the carrying amount of the Commission's deposits was \$3,391,274 with the bank balances of such accounts being \$3,421,734. Of the bank balances, \$577,734 was covered by federal depository insurance and the remaining balance of \$2,844,000 was covered by pledged collateral held at its custodial banks in joint custody in the name of the Commission and its banks or an irrevocable letter of credit with a fair value of \$3,613,807 at June 30, 2017.

The Commission had cash on hand at June 30, 2017 of \$7,255.

3. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings and improvements	\$ 9,161,454	\$ —	\$ —	\$ 9,161,454
Machinery and equipment	1,918,124	174,317	46,373	2,046,068
Vehicles	<u>265,274</u>	<u>37,875</u>	<u>—</u>	<u>303,149</u>
Total assets being depreciated	<u>11,344,852</u>	<u>212,192</u>	<u>46,373</u>	<u>11,510,671</u>

3. CHANGES IN CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 2,484,688	\$ 186,453	\$ —	\$ 2,671,141
Machinery and equipment	1,081,944	186,483	38,981	1,229,446
Vehicles	<u>167,643</u>	<u>38,834</u>	<u>—</u>	<u>206,477</u>
Total accumulated depreciation	<u>3,734,275</u>	<u>411,770</u>	<u>38,981</u>	<u>4,107,064</u>
Total capital assets being depreciated, net	<u>\$ 7,610,577</u>	<u>\$ (199,578)</u>	<u>\$ 7,392</u>	<u>\$ 7,403,607</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Recreation Center	\$ 310,276
General Operations	60,964
Maintenance	11,621
Oaklawn Recreation Center	<u>28,909</u>
Total depreciation expense – Governmental Activities	<u>\$ 411,770</u>

4. LONG-TERM DEBT

During the fiscal year ended June 30, 2017, the Commission's long-term debt changed as follows:

	<u>Capitalized Lease Obligations Payable</u>	<u>Compensated Absences</u>	<u>Net Pension Liability</u>	<u>Total Long-Term Debt</u>
Beginning of year	\$ 3,940,000	\$ 212,383	\$ 1,214,631	\$ 5,367,014
Additions	—	150,140	408,420	558,560
Deletions	<u>(195,000)</u>	<u>(138,832)</u>	<u>(181,096)</u>	<u>(514,928)</u>
End of year	<u>\$ 3,745,000</u>	<u>\$ 223,691</u>	<u>\$ 1,441,955</u>	<u>\$ 5,410,646</u>
Amount due within one year	<u>\$ 205,000</u>	<u>\$ 44,761</u>	<u>\$ —</u>	<u>\$ 249,761</u>

4. LONG-TERM DEBT (continued)

The Commission entered into a revised lease agreement with the City of Derby, Kansas, whereby the Commission leases a community center, known as the Derby Recreation Center, from the City of Derby for a term of ten years, commencing August 30, 2012. The original lease agreement with the City of Derby commenced August 1, 1985 and was amended on March 11, 2003, which was related to completing the second phase of the Derby Recreation Center. The lease agreement dated August 30, 2012 requires the Commission to pay the City of Derby lease payments sufficient to service the debt issued by the City related to the costs of modernizing and repurposing portions of the facility. The Commission is required to perform all maintenance and make all repairs and replacements necessary to keep the facility in good condition, provide for insurance against loss for all risks on the facility and pay all taxes levied upon the facility during the term of the lease. The Commission has the option to renew the lease for additional ten-year periods at a fee of \$1 under the condition that all debt issued by the City related to the facility is paid in full.

The City of Derby, with the approval of the Commission, issued in 1992 general obligation bonds in the face amount of \$3,250,000 for the purpose of completing the second phase of the Derby Recreation Center. The 1992 general obligation bonds were refinanced in 1996 and the 1996 bonds were again refinanced in December 2004, amending the amount of the lease payments to be made by the Commission. On May 9, 2013 the City of Derby, with the approval of the Commission, issued \$4,500,000 of General Obligation Refunding and Improvement Bonds, Series 2013, to provide permanent financing of the remodel improvements at the Derby Recreation Center.

The current lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 286,220
2019	287,220
2020	288,120
2021	283,920
2022	284,720
2023	285,420
2024	286,020
2025	286,520
2026	286,920
2027	286,868
2028	281,347
2029	285,708
2030	284,457
2031	282,700
2032	285,680

4. LONG-TERM DEBT (continued)

<u>Year ending June 30,</u>	<u>Amount</u>
2033	\$ 288,120
Total minimum lease payments	4,569,960
Less amount representing interest	<u>(824,960)</u>
Present value of minimum lease payments	<u>\$ 3,745,000</u>

The cost and accumulated depreciation of assets included under the capital lease are as follows:

Derby Recreation Center - Remodel	\$ 4,331,596
Less accumulated depreciation	<u>(358,687)</u>
Total	<u>\$ 3,972,909</u>

5. PENSION PLAN

Plan description

The Commission participates in the Kansas Public Employees Retirement System, a cost sharing multiple employer defined benefit pension plan. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74-4901 *et. seq.*:

Public employees, which includes:

- State/School employees
- Local employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the Recreation Commission are included in the local employee group.

KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, by calling 1-888-275-5737 or via KPERS website at www.kpers.org.

5. PENSION PLAN (continued)

Benefits provided

KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85 'points'.

Monthly retirement benefits are based on statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee accordingly to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of each annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employees, which includes the state and the school employers. Annual increases in the employer contribution rates related to subsequent benefit

5. PENSION PLAN (continued)

enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.1% of total payroll for the fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates for KPERS employees (not including the 1% contribution rate for the Death and Disability Program) are 9.18%. Member contribution rates as a percentage of eligible compensation for the fiscal year ended June 30, 2016 is 6% for KPERS employees.

The 2015 Legislature passed and the Governor approved Senate Bill 228, which authorized the issuance of \$1 billion in pension obligation bonds to improve the funding of the state/school group. The bonds were issued in August 2015 and deposited in the trust fund on August 20, 2015. This legislation reset the state/school statutory rate to 10.91%. In fiscal year 2015 for the state/school employer group, the Governor declared an allotment affecting the employer rate for the last two quarters of the fiscal year. The employer rate was reduced from 11.27% to 8.65%.

Employer allocations

Although KPERS administers one cost sharing multiple employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages for the Commission's share of the collective pension amounts as of June 30, 2016 was based on the ratio of its contributions to the total of the employer and nonemployer contributions of the local group for the fiscal years ended June 30, 2016. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2016, the Commission's proportion was 0.093208%, which was an increase of 0.000703% from its proportion measured at June 30, 2015.

Receivables

In addition to statutorily determined contractually required contributions, certain agencies also make payments through an additional component of their required employer contribution rate or annual installment payments, both options include interest at 8% per year, for the cost of service credits granted retroactively when the agencies initially joined the retirement system. As of June 30, 2016, the outstanding balance was \$6,327,937. These payments are due over various time periods up through December 31, 2032.

5. PENSION PLAN (continued)

The 2016 Legislature passed and the Governor approved Senate Bill 161, authorizing the delay of up to \$100 million in KPERS state/school contributions. The bill requires that the delayed fiscal year 2016 contributions be paid by June 30, 2018, with interest at 8%. The long-term receivable of the delayed contributions plus interest at June 30, 2016, totals \$99,022,353 and has been included in the state/school contributions at June 30, 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2017, the Commission reported a liability of \$1,441,955 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2017, the Commission recognized pension expense of \$157,965. At June 30, 2017 the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Commission contributions subsequent to the measurement date	\$ 181,096	\$ —
Differences between expected and actual experience	8,369	26,026
Net difference between projected and actual earnings on pension plan investments	170,338	—
Changes in assumptions	—	13,489
Changes in proportion	<u>9,828</u>	<u>4,261</u>
Total	<u>\$ 369,631</u>	<u>\$ 43,776</u>

The Commission reported \$181,096 as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 13,872
2019	13,872
2020	66,769
2021	48,243
2022	2,003
Thereafter	—

5. PENSION PLAN (continued)

Actuarial assumptions

The total pension liability at the June 30, 2016, measurement date was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2016. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	– 3.00 percent
Wage inflation	– 4.00 percent
Salary increases, including wage increases	– 4.00 to 16.00 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	– 8.00 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major assets class included in the pension plan's target asset allocations as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2016</u>	
	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.00%	6.80%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	<u>2.00</u>	(.25)
Total	<u>100.00%</u>	

5. PENSION PLAN (continued)

Discount rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the Pension Plan as of June 30, 2016 calculated using the discount rate of 8.00%, as well as what the Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>June 30, 2016</u>		
	<u>1.00%</u>	<u>Current</u>	<u>1.00%</u>
	<u>Decrease</u>	<u>Discount</u>	<u>Increase</u>
	<u>(7.00%)</u>	<u>(8.00%)</u>	<u>(9.00%)</u>
Amount due within one year	\$ 1,976,433	\$ 1,441,955	\$ 988,760

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

6. OAKLAWN ACTIVITY CENTER PROJECT AND LEASE

In May 2008, the Commission entered into a facility sublease agreement with Derby USD No. 260 to operate the Oaklawn Activity Center, which includes a gymnasium and various other community facilities. The Derby USD No. 260 issued Certificates of Participation in the principal amount of \$1,500,000 dated September 1, 2008 to partially finance planned improvements to the Oaklawn Activity Center. All project improvements remain the

6. OAKLAWN ACTIVITY CENTER PROJECT AND LEASE (continued)

property of USD No. 260. The facility improvements were substantially completed in January 2010 and the total cost of the facility improvements incurred by Derby USD No. 260 were \$2,266,258.

The lease agreement requires the Commission to pay Derby USD No. 260 lease payments sufficient to service the Certificates of Participation issued by Derby USD No. 260 related to the costs of expansion, repairs, remodeling and other related costs of the facility. USD No. 260 shall provide ground crew maintenance of the facility and the Commission is required to perform all maintenance and make all repairs and replacements necessary to keep the facility in good condition and shall provide for the cost of utilities to gymnasium and the new addition to the facility. USD No. 260 is responsible for property and casualty insurance however, the additional premiums to cover the newly constructed addition shall be reimbursed to the USD by the Commission. The Commission has the option to renew the lease for additional ten-year periods at a fee of \$1 under the condition that all debt issued by USD No. 260 related to the facility are paid in full. During 2017, the Commission made advanced payments of the 2018 and 2019 lease payments for all outstanding Certificates of Participation to be called for early retirement on June 12, 2017.

7. OTHER POSTEMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Commission allows retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level premium regardless of age. Further, under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Commission makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured and there is no cost to the Commission under this program. Currently, there are no former employees or retirees receiving health care benefits under the Commission's group health insurance plan. The affects of this postemployment benefit are not quantified in the accompanying financial statements and management believes any impact on the financial statements is not significant.

8. TAX ABATEMENTS

Derby USD No. 260 levies taxes on behalf of the Derby Recreation Commission, which are subject to tax abatement agreements entered into by the City of Derby, Kansas and Sedgwick County, Kansas. Those tax abatement programs include Economic Development Exemptions which Article 11, Section 13 of the Kansas Constitution gives counties and cities the authority to exempt from ad valorem taxation all or any portion of the valuation of buildings, land or other improvements used to facilitate business expansion and new employment creation. Kansas Statutes Annotated 79-213 et. seq. establishes procedures by which the taxable value of personal property being financed by industrial revenue bonds may be wholly or partially exempt.

8. TAX ABATEMENTS (continued)

The tax abatements granted by the City of Derby, Kansas and Sedgwick County, Kansas applicable to taxes levied on behalf of the Commission were approximately \$24,501 for the year ended June 30, 2017.

9. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The Commission is currently negotiating a lease agreement with the Derby Historical Society for use of the former Derby Unified School District (USD) No. 260's Sixth Grade Center, which was contributed to the Derby Historical Society by the USD. The Commission expects certain improvements to be made to the facility by the lessor and repayment of the financing necessary for those improvements is anticipated in the lease rentals to be paid by the Commission. Preliminary estimates for the project costs are approximately \$1,430,633. Subsequent to June 30, 2017, the Commission committed to architecture and engineering fees in the amount of \$87,852.

Management has evaluated subsequent events through November 30, 2017, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

DERBY RECREATION COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
KPERS PENSION PLAN

Schedule of Commission's Proportionate Share of the Net Pension Liability
Last Three Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Commission's proportionate percentage of the net pension liability	.093208%	.092505%	.092335%
Commission's proportionate share of the net pension liability	\$1,441,955	\$ 1,214,631	\$ 1,136,471
Commission's covered employee payroll	\$1,692,338	\$ 1,639,924	\$ 1,548,111
Commission's proportionate share of the net pension liability as a percentage of its covered employee payroll	85.20%	74.07%	73.41%
Plan fiduciary net position as a percentage of the total pension liability	68.55%	71.98%	72.56%

Schedule of Commission's Contributions
Last Three Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 157,965	\$ 150,545	\$ 155,860
Contributions in relation to the contractually required contribution	<u>157,965</u>	<u>(150,545)</u>	<u>(155,860)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Commission's covered employee payroll	1,793,088	\$ 1,639,924	\$ 1,548,111
Contributions as a percentage of covered employee payroll	8.81%	9.18%	9.48%

* — Data became available with the inception of GASB Statement No. 68 during fiscal year 2015, therefore 10 years of data is unavailable.

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